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UNCLAS SECTION 01 OF 02 BRASILIA 000564

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SUBJECT: LULA'S PERSONAL APPROVAL UNSCATHED BY RECENT SCANDAL

REFS: A) BRASILIA 0458

B) BRASILIA 0402

1. SUMMARY: The administration of Brazilian President Lula da Silva is facing the worst crisis of its fifteen months in power, yet Lula's personal approval rating remains at 60%, according to a recent poll. However, his government's approval number stands at 38%, suggesting that Lula will have to expend greater personal and political effort to move legislation and to maintain popular support for his agenda. The difference in the numbers also demonstrates Lula's personal charisma, though this alone is unlikely to be enough to ensure his administration's success. As it now appears the worst of the scandal is abating, Lula and his government emerge with a tarnished reputation and reduced political capital, both in Congress and with the public. END SUMMARY.

LULA AT 60%, BUT HIS GOVERNMENT AT 38%

2. The personal popularity of President Lula da Silva remains high (60%) despite the rash of bad press from the recent "Waldomiro Diniz scandal" involving a senior aide caught soliciting bribes from a numbers racketeer (refs A and B). A nationwide poll released March 2 by Datafolha showed that Lula's personal approval remains at the same level as it was in October 2003 (and nearly the same as the 61% of the popular vote he received in the October 2002 elections). Most Brazilians do not believe that Lula is linked to or knew about Diniz's corruption.

3. As always, Lula personally is much more popular than his administration. The approval numbers for Lula's government have slipped steadily since taking office, dropping again from 42% in December 2003 to 38% on March 2 (though this change is within the margin of error). In response to specific questions about the Diniz scandal, 81% of respondents believe there should be a congressional inquiry (which Lula's PT party vigorously opposed and managed to kill on March 4); 43% think Lula's powerful Chief of Staff, Jose Dirceu (for whom Diniz worked) should step aside during the investigation; and 24% believe Dirceu should step down permanently. Lula has reportedly refused Dirceu's offered resignation.

4. The scandal is not the only thing weighing down the government's approval numbers. An economy that remains sluggish despite fiscal belt-tightening (and controversial pension reforms passed in December) has not helped the administration's popularity. The Datafolha poll also notes that many Brazilians (36%) do not see President Lula as a hard worker, an increase over the 21% who held this opinion last year. This may be a function of his frequent international travels. Yet Ricardo Antunes, a Professor of Sociology at the University of Campinas in Sao Paulo, commented to the press that Lula's populist style enables him to communicate effectively with the working class, and therefore this segment of the population will give him more time to show results, in a sense give him a longer honeymoon.

5. The March 2 polling numbers also show that the popularity of the government has fallen regardless of region. In the prosperous southeast (which includes the economic centers of Sao Paulo and Rio) the government's approval fell from 37% in December to 31% on March 2. In the poorer northeast, the numbers slipped from 47% to 42% in the same period.

COMMENT

6. Waldomiro Diniz was a senior advisor to Jose Dirceu, Lula's closest and most powerful advisor. Dirceu has been diminished by the scandal, though he is not personally implicated. Yet Lula continues to rise above the image of his party and his administration. The Datafolha numbers show that his personal popularity is a remarkable 22 points higher than that of his government. This dynamic has caused press and pundits to speculate on how long Lula's popularity balloon can sustain the deadweight of a sluggish economy and controversial political reforms. With the Diniz scandal making matters even worse for the government, some believe that the GoB may be forced to make concessions, either on

fiscal austerity or on controversial pieces of legislation, in order to maintain popular and congressional support. To date, this is just speculation, and Lula has given no sign that he will cave in to political pressures. In fact, even in the wake of the latest dismal GDP figures, Lula again reasserted his long-term commitment to Finance Minister Palocci's austerity program.

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